

CROSS-ASSET WARNING SIGNS ARE BUILDING, BUT THANKS TO TECH STRENGTH, KEY US EQUITY GAUGES HAVEN'T FLINCHED YET



Mark L. Newton, CMT^{AC}

HEAD OF TECHNICAL STRATEGY

Key Takeaways

- \$DJIA is in much worse shape near term than \$SPX and \$QQQ, nearing initial support near 50,500, with a break of 49,913 opening the door to 49,000–47,700.
- The MOVE index has engineered a multi-year trendline breakout in bond market volatility, and \$SPX's negative correlation with Treasury yields could still serve as a headwind in the weeks ahead.
- \$SPY has accelerated to the highest levels in more than a year vs. Europe and should be favored, while the VIX/VVIX ratio has begun to turn higher despite a VIX near 15 and is worth keeping an eye on.



US equity trends remain positive following this week's push to new all-time highs in \$SPX and \$QQQ, but Wednesday's minor pullback is a reminder that the cross-asset backdrop hasn't yet improved in a way that would make this an easy rally. Bond market volatility has engineered a multi-year breakout in the MOVE index as the Treasury selloff has continued, which could cause ripples into other risk assets in the next month. Importantly, the strength out of Technology has largely proved to be a source of resilience for US indices, while many European equity indices have slipped over 3% in the last month, not unlike the weakness seen in equal-weighted \$SPX. None of this changes the view that it's right to be long the Tech-heavy \$SPX for a push to 7,900 in the weeks to come, but with a close eye on the cross-asset volatility that seems to be spreading a bit more quickly across the globe lately. For now, all eyes are on WTI crude oil, and a continued period of weakness for WTI crude could serve as the catalyst that allows for a push back higher in prices and some possible relief in the US dollar and bond yields over the next couple of weeks.

\$DJIA is nearing important initial support near 50,500, but its negative technical structure and poor momentum likely perpetuate the lagging behavior

into November

\$DJIA is more difficult to be too bullish on near term, but it is nearing an important initial area of support which was hit last Thursday, which lines up with the early-February peaks from this year near 50,500, right above the 50% retracement level of the entire run-up from spring 2026 into August.

Wednesday's 0.66% decline to 51,185 leaves the Dow more than 6% beneath its August peak, having broken its uptrend from the April lows in September, while \$SPX and \$QQQ pushed to new all-time highs this week.

If this fails to hold on any subsequent drawdown over the next month (technically 49,913, near the June lows), I suspect the ultimate downside target for \$DJIA would prove to be 49,000 down to 47,700. Overall, \$DJIA is in much worse shape near term than \$SPX and \$QQQ, and I suspect the overall level of bond-driven weakness might prevent a broad-based rally from gaining too much traction ahead of the US midterm elections.

Thus, while a bounce looks possible for \$SPX and \$QQQ, I'm far less certain that much happens to change the negative technical structure of \$DJIA right away, and this might continue to lag into November. The downtrend line from the August peak near 51,900 would need to be exceeded on a daily close before one could argue the Dow has rejoined the uptrend.

Dow Jones Industrial Average (\$DJIA, daily) — Nearing initial support at the February peaks near 50,500 above the 50% retracement, with 49,913 the level that needs to hold



Source: TradingView

The MOVE index has engineered a multi-year breakout, and it's unclear how much can temper bond market volatility until weaker data or Fed tightening gets priced in

The breakout in the ICE BofA MOVE index (measuring US bond market volatility) looks important, despite US Treasuries having acted far better than many European sovereign yields lately. Given the breakout above this downtrend from 2023, I think it's very possible that equal-weighted \$SPX and \$DJIA, not to mention the Small-cap Russell 2000, could fail to show the same kind of strength as \$SPX and \$QQQ before the midterms.

My expectation is that risk assets likely start to rebound in the days ahead following today's hawkish Fed minutes, which look to have been very much expected by the markets. However, until there is either weaker economic data or Fed tightening starts to get priced back into the market, I'm not sure how much can be done to temper this bond market volatility.

Prior spikes in the MOVE index above this area, in 2022, the spring of 2023, and April 2025, all coincided with periods of difficulty for equities, though each also marked the latter stages of a Treasury selloff rather than the beginning. A reversal back beneath 100 would be the first evidence that the bond market is stabilizing, and until that happens, it's right to expect the rate-sensitive sectors and Small-caps to remain under pressure.

ICE BofA MOVE Index (weekly) — Multi-year breakout above the downtrend from the March 2023 peak to the highest levels since spring 2025



Source: Bloomberg

\$SPX's negative correlation with Treasury yields is nothing new, but with rates at multi-year highs, "good news is bad news" for stocks right now

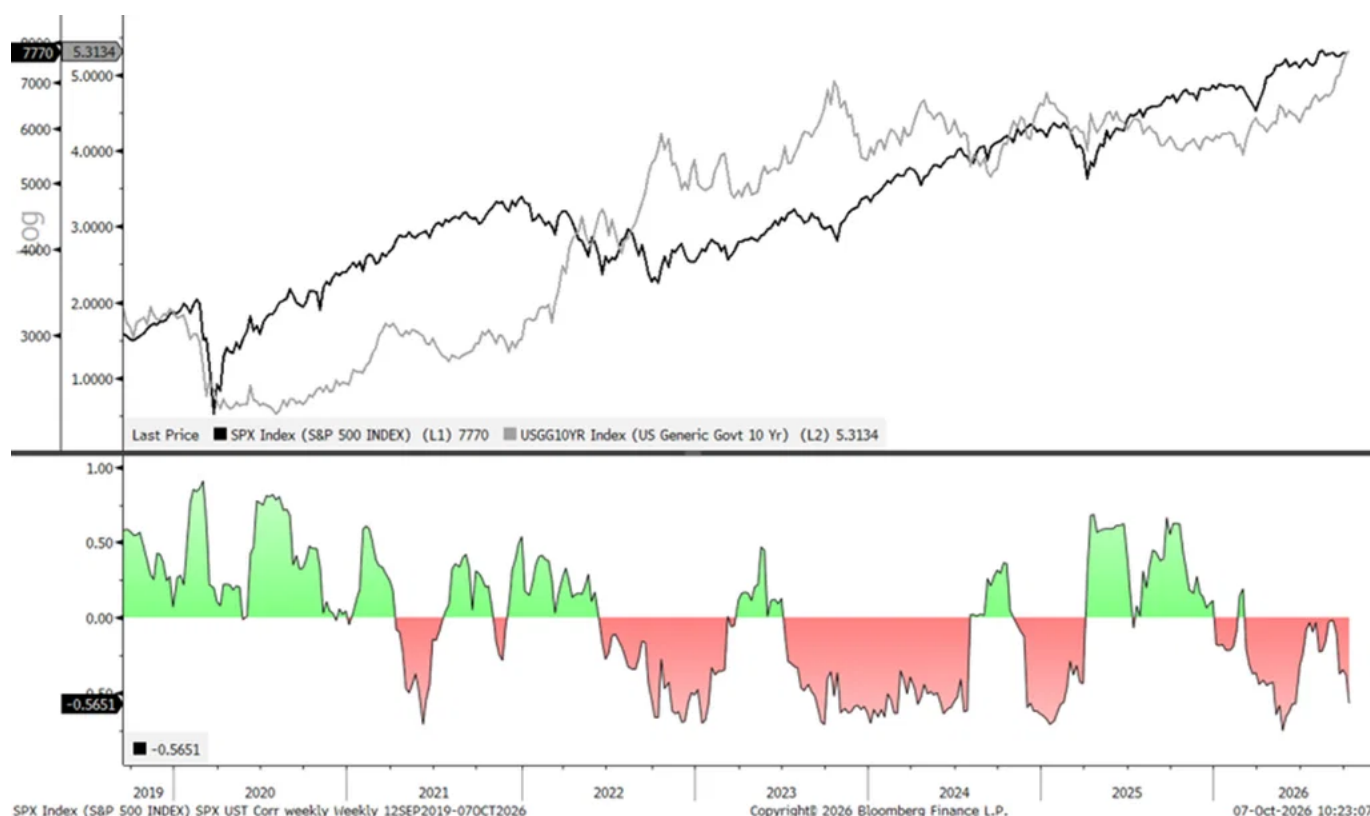
The correlation graph between \$SPX and ^TNX shows negative correlation, but this shouldn't come as a surprise, as largely this has been the case over the last four years, with higher rates serving as a headwind to \$SPX. Note, the opposite, of lower rates always leading \$SPX higher, is not as prevalent, but **it's just worth noting that earlier this year the correlation was actually more negative than recently, and it really became a bit more negative following Jackson Hole this year.**

Much of this had to do with the sudden velocity of rates, as both 10- and 30-year Treasury yields pushed over 5% to multi-year, and in the case of the 30-year, nearly two-decade highs. Given this current negative correlation, "good news is bad news" with regard to the stock market, in terms of super-strong economic numbers which lead rates higher being likely something that would add hikes back into the curve.

However, European unrest also has caused rates to pick up even quicker in Europe in a way that has caused some jitters for European stocks, and that is also worth noting, despite the US being a relatively calmer environment on both the equity and fixed income front.

My expectation is that economic weakness in the weeks to come would actually be soothing to the US equity market given its downward pull on rates, and this would gel with the FOMC's recent tempering of expectations of additional rate hikes ahead of the midterms.

S&P 500 Index vs. US 10-Year Treasury Yield (weekly) with rolling correlation — Negative correlation has been the norm for four years, with higher rates a headwind to \$SPX



Source: Bloomberg

\$SPY has begun to accelerate again relative to Europe, reaching the highest levels in more than a year, and US equities should be favored over Europe at this time

Given the deterioration in European sovereign bond markets, along with the recent comeback in US Large-cap Technology, \$SPY has begun to show acceleration again relative to Europe. As shown in ratio charts of both \$SPY/\$VGK below and also \$SPY/\$FEZ (not shown), **\$SPY relative to European equities has rallied to the highest levels in more than one year, with the \$SPY/\$VGK ratio having risen from 8.42 to 9.08 over the last five weeks.**

The STOXX 600 has fallen more than 3% in the last month, while the EuroSTOXX 50 has dropped 3.49% heading into today. However, this looks to be on par with some of the US indices like \$DJIA and also the equal-weighted S&P 500, which have also dropped over 3% in the last month. **Thus, the strength and comeback of Large-cap Technology and AI momentum literally has camouflaged US equities from the weakness that likely could have been present in the US and is currently present in Europe.**

While this ratio might slow down once it reaches its 2025 peaks near 9.20–9.35, which might happen sometime in late October, my expectation is that US equities should be favored over Europe at this time. Moreover, \$SPY has regained the long-term uptrend that had been broken vs. the All-Country World Index ex-US (\$ACWX) (also not shown), which helps to add to the bullish case for owning US equities vs. the rest of the developed world.

\$SPY / \$VGK (US vs. Europe, weekly) — Acceleration to the highest levels in more than a year, with the 2025 peaks near 9.20–9.35 the next resistance



Source: Symbolik

A VIX near 15 during a global bond rout isn't a contradiction, but the VIX/VVIX ratio has begun to turn higher and is worth keeping an eye on

Finally, while some might express astonishment that the CBOE VIX index is sitting near 15 while we're witnessing a global bond market rout, a few key points are relevant:

First, realized volatility for US equities supports a low VIX at this time, as equity indices (given Technology strength) have not really been affected by the spike in bond yields, the rising US dollar, ongoing wars, or rising crude prices. Indeed, this midterm-year fall period ahead of the elections has proven to be quite resilient compared to prior midterm years, and this has less to do with equity markets being numb to these events than with the specific cycle that has governed 2026 as a whole. (In other words, sometimes these things coincide with weakness and sometimes they certainly do not.) The inconsistency with how exogenous events correlate with stock market weakness should largely cause market participants to question their validity as a cause of market turbulence.

Second, one of the ratios I do find helpful in analyzing to understand when implied volatility might affect risk assets has less to do with the VIX itself and

more to do with the ratio of VIX to VVIX (the CBOE VIX of the VIX, or the expected volatility of the 30-day forward price of the CBOE VIX). I've found that breakouts in the spot VIX which exceed VVIX in a way that causes momentum to start to pick up in VIX/VVIX can often coincide with times of market turbulence. As shown below, the ratio remains quite subdued but has picked up a bit in the last week (despite \$SPX having pushed back to new all-time highs).

Thus, it's wrong to say that outside events "don't matter" to risk assets. However, when unexpected events cause spot VIX to rise abruptly compared to VVIX (sometimes investors might notice the VIX higher on mild "up" days in the market), then normally this can present a possible period of unrest for the stock market, particularly when trends of this ratio are broken.

The chart below shows these occasions over the last few years which marked difficult periods in 2021 into 2022, 2025, and early this year in 2026. Thus far, this looks premature, but it has begun to turn higher and is worth keeping an eye on.

VIX / VVIX Ratio (weekly) — Subdued but turning higher in the last week, with prior trend breaks (green arrows) having marked difficult periods in 2021–2022, 2025, and early 2026



Source: Optuma

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